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Missouri State Auditor

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STATEWIDE

Fleet Management
Follow-Up



Additional opportunities exist to reduce transportation and fleet costs and improve management of fleet operations by the Office of Administration (OA), the Departments of Conservation and Transportation, and state universities

This audit is a follow-up on our 2001 report titled *Audit of State Fleet Management* (Report no. 2001-94). We assessed the progress OA has made in implementing our recommendation to improve the management and oversight of the state's vehicle fleet. We also determined whether opportunities exist to improve the fleet management programs at the Departments of Conservation and Transportation. In addition, we reviewed selected universities' fleet management programs.

OA takes positive action implementing SAO recommendation

OA implemented our previous recommendation and issued a statewide vehicle policy in January 2002. OA's policy included minimum requirements needed for a vehicle management program. OA established a fleet management system to identify the number of state vehicles and requires agencies to provide fleet management data to OA. Audit efforts at the Departments of Insurance, Agriculture, and Economic Development disclosed those departments are following OA's fleet management policies. (See page 4)

State spent \$72 million over a 5-year period on employee mileage reimbursements

During fiscal years 2001 through 2005, the state reimbursed employees approximately \$72 million for using personal vehicles for business purposes. Three agencies (Departments of Corrections, Health and Senior Services, and Social Services) accounted for \$40 million (56 percent) of that amount. (See page 8)

Requiring the use of OA's trip optimizer and reducing vehicle assignment criteria could reduce mileage reimbursement costs

OA established the trip optimizer to help employees determine the most cost-effective mode of transportation. However, OA has not required agencies to use it. Auditors found 240 employees drove over 15,000 miles and had been reimbursed \$1.6 million during fiscal year 2005. If those employees had been provided access to state vehicles, the state could have saved \$670,000, or \$3.3 million over a 5-year period. Auditors also found reducing vehicle assignment mileage criteria could save the state as much as \$3.3 million a year in mileage reimbursement costs. OA is considering establishing a centralized vehicle pool, and acquiring additional vehicles through a lease-purchase program, to help offset mileage reimbursement costs. (See page 9)

Increasing replacement mileage criteria could reduce fleet costs

Auditors noted increasing the minimum replacement mileage criteria for fleet vehicles could reduce fleet costs. For example, if vehicles are replaced at 135,000 miles instead of 105,000 miles, the state could reduce fleet costs by about \$2 million. Auditors also noted purchasing surplus vehicles can reduce fleet costs. (See page 13)



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YELLOW SHEET

OA policies have not required agencies to consider surplus vehicles or justify purchase of SUVs

OA has not established a policy requiring agencies to justify why an agency chose to buy new vehicles instead of buying from surplus property. In addition, OA's vehicle policy has not established criteria to be met or required additional justification, prior to the purchase of sports utility vehicles (SUVs). OA data for 2004 showed SUVs cost the state approximately \$0.34 per mile compared to \$0.199 per mile for mid-size sedans. (See pages 14 and 16)

Conservation, Transportation, and state university fleet programs could be enhanced

Auditors found the Departments of Conservation and Transportation, and state university fleet programs could also be enhanced by establishing policies, or formal guidance, addressing employee use of the least costly mode of transportation, and the procurement of surplus vehicles and SUVs. In addition, policies and guidance have not always addressed vehicle replacement criteria, vehicle assignments and/or minimum mileage use requirements, and use of vehicle mileage logs and/or the method for tracking vehicle usage. (See pages 22 and 31)

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Abbreviations

CSR	Code of State Regulations
M&R	Maintenance and Repair
MoDOT	Missouri Department of Transportation
OA	Office of Administration
RSMo	Missouri Revised Statutes
SAM II	Statewide Advantage for Missouri II
SAO	State Auditor's Office
SUV	Sports Utility Vehicle



CLAIRE McCASKILL
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Agency and University Management
and
Michael Keathley, Commissioner
Office of Administration
Jefferson City, MO 65102

This report is a follow-up on our 2001 report titled *Audit of State Fleet Management* (Report no. 2001-94), and related issues. We assessed the progress the Office of Administration (OA) has made in implementing our recommendation to improve the management and oversight of the state's vehicle fleet. We also assessed whether opportunities exist to improve the Departments of Conservation (Conservation) and Transportation (MoDOT), and selected universities' fleet management programs.

OA implemented our recommendation and established a statewide policy for fleet management. However, additional opportunities exist to reduce transportation and fleet costs and improve management of fleet operations by OA, as well as by Conservation, MoDOT, and three universities reviewed. We have made recommendations which could reduce costs and further improve management of fleet programs reviewed.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. This report was prepared under the direction of John Blattel. Key contributors to this report included Robert Spence, M. Monia, and Malcolm Nyatanga.

A handwritten signature in black ink that reads "Claire McCaskill".

Claire McCaskill
State Auditor

Introduction

During our previous review of fleet management¹ we found (1) the state did not know how many vehicles it owned, (2) fleet vehicles had been underutilized, (3) nearly half of agencies reviewed had not established vehicle replacement policies, and (4) fleet management had been left up to individual agencies and/or divisions of agencies.

Our report also disclosed the need for a standardized approach to ensure the state's investment in vehicles has been effectively and efficiently managed. We recommended the Office of Administration's (OA) Commissioner establish a statewide fleet management policy and include the following requirements:

- minimum mileage use requirements,
- vehicle replacement policies, including replacement thresholds by vehicle type,
- vehicle purchasing and budgeting procedures,
- preventive maintenance, including maintenance schedules,
- allowable and unallowable uses and the records required to account for such use,
- justification for assigning vehicles to individuals, and
- justification for commuting.

OA Takes Positive Action Implementing SAO Recommendation

In September 2001, we released our audit on fleet management. As a result of our recommendations, OA established the Fleet Management Advisory Committee (Fall 2001) consisting of representatives from all state agencies. Committee objectives included providing input to OA on fleet management issues such as tracking systems and vehicle policies. OA issued a statewide vehicle policy in January 2002.

In July 2002, subsequent to our review, the General Assembly authorized OA to create a fleet management position to institute and supervise a state vehicle tracking system. Through this system, each agency tracks the cost of owning and operating state vehicles. The General Assembly gave OA's fleet manager the authority to suspend any agency's fleet purchasing authority if the agency does not comply with OA requirements. The fleet manager is also required to issue an annual report on the status of the state vehicle fleet along with any recommendations for improvements and changes necessary for more efficient fleet management.²

¹ *Audit of State Fleet Management*, SAO, September 25, 2001 (Report No. 2001-94).

² This report is due by the end of January each year.

The legislation also required OA to establish guidelines determining the most cost-effective and reasonable mode of travel for single trips using the following options: passenger rail, vehicle rental, fleet checkout, and reimbursement for personal car use.

The General Assembly also gave the commissioner authority to issue policies governing the acquisition, assignment, use, replacement and maintenance of state vehicles for state agencies.

Our follow-up review disclosed OA implemented our recommendation by issuing a statewide administrative vehicle policy in January 2002. The policy included minimum requirements needed for a vehicle management program. OA also established a fleet management system to identify the number of state vehicles and requires agencies to provide fleet management data to OA. Review efforts at the Departments of Agriculture, Economic Development, and Insurance disclosed those departments are following OA's fleet management policies. Review efforts also disclosed opportunities exist to reduce transportation and fleet costs, and improve OA's management of the fleet. (See Chapter 2 for further discussion.)

Scope and Methodology

To determine whether recommendations made in our prior report had been implemented, we reviewed OA's state vehicle policy, and state laws governing state fleet management. We also reviewed policies and procedures and discussed program specifics with OA officials, as well as agency and university fleet managers and officials.

We conducted work at the Departments of Agriculture, Economic Development, and Insurance to determine whether those agencies had implemented OA vehicle fleet guidance. We also conducted work at the Missouri Department of Conservation (Conservation), the Missouri Department of Transportation (MoDOT), and the University of Missouri,³ Missouri State University,⁴ and Northwest Missouri State University (Northwest) to determine the adequacy of these entities' vehicle fleet policies.

To determine agency mileage reimbursements to employees, we analyzed mileage reimbursement data from the state financial system⁵ for fiscal years 2001 through 2005. We also determined which agencies accounted for the majority of the reimbursements and if the six agencies reviewed tracked and

³ The University of Missouri system includes four campuses.

⁴ Formerly known as Southwest Missouri State University.

⁵ Data obtained from system known as Statewide Advantage for Missouri II (SAM II).

analyzed the data. The six agencies included the Departments of Agriculture, Corrections, Economic Development, Health and Senior Services, Insurance, and Social Services.

To determine whether agencies use the most cost-effective mode of transportation, we reviewed OA and agency fleet vehicle policies to determine whether a policy on mileage reimbursement had been included. We used OA's "trip optimizer"⁶ to assist in our determination of when it is more cost-effective to rent a vehicle, pay employees mileage reimbursement, or to use a state vehicle. We also interviewed agency officials at selected agencies and universities to determine whether these organizations required employees to use the most cost-effective mode of transportation for state travel.

To determine whether potential savings could occur by reducing OA's 15,000 mile criteria for vehicle assignments, we reviewed OA data showing the mileage point where OA determined it is cost-efficient to assign a vehicle to a state employee rather than continue paying mileage reimbursement. We then compared this point to OA's existing criteria of 15,000 miles per year and estimated potential savings in mileage reimbursement if OA lowered its criteria to that mileage point.

To determine the adequacy of pool vehicles to meet agency needs, we analyzed OA fleet usage data for 19 agencies/departments for fiscal year 2004. From that data, we determined 11 met OA's fleet usage criteria of 15,000 miles per year. We then determined mileage reimbursements made to those 11 agencies over a 5-year period (2001-2005). We also determined the number of pool vehicles available to the 11 agencies. We discussed potential need for additional vehicles with agency personnel and discussed low-cost purchase strategies with OA officials.

To determine whether potential savings could occur by increasing OA's minimum vehicle replacement criteria of 7-years/105,000 miles, we reviewed OA data on maintenance and repair (M&R) costs. We determined when M&R costs started to increase materially in relation to vehicle mileage.

To determine whether OA required agencies to purchase surplus vehicles as replacement vehicles, we reviewed 303 vehicle purchases made by agencies during fiscal year 2004, and OA's purchase approval procedures. We also

⁶ OA's "trip optimizer" provides employees with cost information regarding different modes of transportation.

determined savings achieved by those agencies purchasing surplus vehicles by comparing the cost of surplus federal vehicles sold to state agencies to break-even value amount for selected purchases.

To determine the adequacy of OA's vehicle purchase pre-approval procedures, we tested 305 vehicle purchase requests for fiscal year 2004 and assessed the adequacy of OA's approval methodology.

To determine the adequacy of OA's procedures used to approve agency purchases of sports utility vehicles (SUVs), we reviewed OA's approval of SUV purchases for fiscal year 2004.

We performed data reliability tests on OA's fleet management system and university fleet management data, and found no material errors in the data.

We requested comments on a draft of our report from the Commissioner of the Office of Administration, the Directors of Conservation and MoDOT, and appropriate university officials. Agencies mentioned in the report, but did not have any recommendations directed to them, were also given an opportunity to respond to the report draft. We conducted our work between November 2004 and July 2005.

Opportunities Exist to Reduce Mileage Reimbursement and Fleet Costs

Opportunities exist to more efficiently manage state employee transportation costs. State agencies have not always considered the cost-benefit of reducing employee mileage reimbursements by requiring state employees to use OA's "trip optimizer," or reducing vehicle assignment criteria. OA is considering establishing a centralized vehicle pool and acquiring additional vehicles to help offset vehicle mileage reimbursement costs. In addition, fleet costs could be reduced by increasing vehicle replacement mileage criteria, requiring agencies to consider buying surplus vehicles before purchasing new vehicles, improving OA procedures used to approve vehicle purchases, and requiring agencies to adequately justify SUV purchases.

\$72 Million Spent on Mileage Reimbursements

During fiscal years 2001 through 2005, the state reimbursed employees approximately \$72 million for using personal vehicles to conduct state business. State regulations⁷ allow state employees to be reimbursed when they use privately owned vehicles at a rate established by OA, which historically has been \$0.03 less than the Internal Revenue Service rate. For example, in fiscal year 2005, OA established a mileage reimbursement rate of \$0.345 per mile; \$0.03 less than the federal rate. OA adjusts the mileage reimbursement rate on an annual basis and on July 1, 2005, OA increased the mileage reimbursement rate to \$0.375 per mile.

Our analysis of state financial system data disclosed 12 of the 25 agencies accounted for \$67 million (93 percent) of the \$72 million spent during fiscal years 2001 through 2005. (See Appendix I for agencies.) The following three agencies accounted for \$40 million (56 percent) of that amount: the Department of Social Services spent \$26 million (36 percent), the Department of Corrections spent \$7 million (10 percent), and the Department of Health and Senior Services spent \$7 million (9 percent).⁸

A Department of Social Services official told us the department has not analyzed reimbursement data. Officials at the Departments of Corrections and Health and Senior Services told us the departments have analyzed reimbursement data. Department of Health and Senior Services officials provided examples of analyses that, according to one official, have been routinely shared with department management and staff. However, Corrections officials could not provide us with analyses they had conducted. Officials with two of three other agencies contacted—the Departments of Agriculture and Insurance—told us those agencies also have not tracked or analyzed reimbursement data. A Department of Economic Development

⁷ 1 CSR 10-11.010.

⁸ Percentages for the three agencies total 55 percent due to rounding.

official told us the department has analyzed reimbursement data, but could not provide us with any analyses.

Requiring agencies to use trip optimizer could reduce costs

In December 2003, OA established a trip optimizer to assist agencies with determining the most cost-effective means of transportation. However, OA has not required agencies to utilize the trip optimizer. In addition, the six agencies reviewed have not required its use or considered the cost-benefits of its use.

State law⁹ requires OA to establish guidelines for determining the most cost-effective and reasonable mode of travel for single trips using passenger rail, vehicle rental, fleet checkout, and reimbursement when using a personal vehicle.

According to OA officials, OA established the trip optimizer on its website to assist state agencies in determining the most cost-effective transportation options. For example, if an employee is making a 224-mile one-day round trip from Jefferson City to St. Louis, the trip optimizer shows taking a state vehicle saves the state the most in transportation costs. If a state vehicle is not available, the website will show using a rental car is the next most cost-effective option, and using the employee's vehicle is the most costly option. The OA used a cost factor of \$0.205 per mile when computing the cost for a mid-size state vehicle, \$52.05 per day for a mid-size rental car (including fuel), and \$0.375 per mile for employee vehicles, as of July 21, 2005.¹⁰ The OA website includes a notice on its trip optimizer that all relevant factors such as employee time and effort, proximity to rental or state vehicles and other administrative costs should be considered when determining the most cost-effective travel option.

Using state vehicles would reduce reimbursement costs

Our analysis of state financial system data disclosed 240 employees had driven personal vehicles over 15,000 miles and had been reimbursed \$1.6 million (4.6 million miles), during fiscal year 2005. Had those employees driven state vehicles, the state would have saved approximately \$670,000¹¹ during fiscal year 2005. Assuming those employees' driving habits remained the same for the next 5 years, the state could realize potential savings of approximately \$3.3 million.

⁹ Section 37.450, RSMo.

¹⁰ OA updates the trip optimizer periodically and therefore, the cost for operating a state vehicle may change.

¹¹ Based on \$0.199 cost per mile to operate a state vehicle, as of May 28, 2005.

To further illustrate potential savings that could be achieved by driving state vehicles, we analyzed the top 20 employees who received the most mileage reimbursement during fiscal years 2001 through 2005. Had these 20 employees been provided state vehicles, the state would have saved approximately \$313,000¹² for the 5-year period. The following examples in Table 2.1 illustrate reimbursements made to 4 employees included in the top 20 and potential savings for the 5-year period.

Table 2.1: Top Employee Reimbursements Made Over 5 years

Agency/ department	Miles driven	Paid to employee	Potential savings ¹
Health and Senior Services Elementary and Secondary Education	171,642	\$55,934	\$24,000
Mental Health	154,320	50,365	21,000
Office of Administration	138,737	44,649	17,000
	138,038	44,698	17,000
Totals	602,737	\$195,645	\$79,000

¹ We based cost savings associated with driving a state vehicle on mileage incurred for a mid-size state vehicle, as of May 28, 2005 (less depreciation) for the 5-year period.

Source: SAO analysis of the state financial system data.

As shown in Table 2.1, the state could have saved \$79,000 for the 4 employees highlighted in the table over the 5-year period had the employees driven state vehicles.

Rental vehicles can also reduce costs

Using OA's trip optimizer and cost data, as of July 21, 2005, we determined mileage points when it is more cost-effective to rent a mid-size vehicle rather than reimbursing employees for mileage, and using a mid-size rental car instead of a state vehicle. Table 2.2 depicts the results of our analysis excluding other administrative costs factors which should be considered but vary and cannot be easily factored into the table.

Table 2.2: Approximate Break-even Points Comparing Rental to Reimbursement and State Vehicles

Days	Rental versus personal vehicle ¹ (miles)	Rental versus state vehicle ² (miles)
1	116	274
2	231	546
3	347	821
4	462	1,094
5	578	1,367

¹ Assumes mileage reimbursement rate of \$0.375 a mile and rental cost for mid-size car, including fuel, as of July 21, 2005.

² Assumes OA rate of \$0.205 a mile for state vehicle and a rental cost for mid-size car, including fuel, as of July 21, 2005.

Source: OA trip optimizer.

¹² Calculation assumes a purchase cost of \$12,246 per vehicle.

No adverse consequences for not using low-cost transportation

Table 2.2 shows it becomes cost-effective to use a rental car for one day rather than reimbursing employees for mileage once miles driven reaches 116 miles. It becomes cost-effective to use a rental vehicle rather than a state vehicle once trip mileage reaches 274 miles.

OA has not established a policy that specifies a maximum employees will be reimbursed when the most cost-effective mode of transportation is not utilized. However, some agencies have established a maximum reimbursement rate allowable. For example, the Department of Agriculture's travel policy requires employees be reimbursed at a rate of \$0.15 a mile if employees use personal vehicles when a state vehicle is available. The Department of Economic Development's travel guidance states employees are to be reimbursed at a rate of \$0.05 a mile less than the established OA rate when they elect to use a personal vehicle rather than a state vehicle.

In discussing this matter, OA officials told us they intend to establish a maximum allowable reimbursement rate for employees based on what the trip optimizer shows as the lowest cost option.

Reducing vehicle assignment criteria reduces mileage reimbursements

Reducing vehicle assignment criteria could reduce mileage reimbursements. To illustrate possible savings, we analyzed fiscal year 2005 mileage reimbursement data and determined the state could have potentially saved \$3.3 million¹³ in employee reimbursement costs, if the state had reduced vehicle assignment criteria.

OA determined once employees drive more than approximately 5,919¹⁴ miles (break-even point) a year, it is economical to provide employees with state vehicles when other cost-effective options are not available, compared to reimbursing employees for mileage driven in employees' vehicles. However, OA's fleet management policy only allows employees exceeding 15,000 miles per year to be considered for vehicle assignment, which is 9,081 miles beyond the break-even point. The 15,000 mile per year guidance is based on OA's 105,000-mile/7-year vehicle replacement guidance ($105,000/7=15,000$ per year).

In discussing this issue, OA officials acknowledge there may be a need for policy change to re-evaluate the assignment criteria. Officials stated

¹³ This figure is based on 2,246 employees that drove over 5,919 miles, or 22.5 million total miles, which cost the state \$7.8 million (22.5 million x \$0.345 a mile). We then took 22.5 million miles x \$0.199 per mile (total cost per mile for mid-size state vehicle, as of May 28, 2005), and got \$4.5 million and subtracted \$4.5 from \$7.8 to get \$3.3 million.

¹⁴ OA's calculation based on fiscal year 2005 figures. The break-even point in fiscal year 2004 was 6,683 miles.

assigning state vehicles would be contingent on the availability of other cost-effective options not being available.

OA considering options to reduce reimbursement costs

OA is considering establishing a centralized vehicle pool, and acquiring additional vehicles through a lease-purchase program, to help offset vehicle mileage reimbursement costs. OA is considering these options because most agencies meet utilization criteria but incur substantial reimbursement costs. For example, our analysis of fiscal year 2004 OA fleet usage data for 19 agencies/departments¹⁵ showed 18¹⁶ agencies averaged 15,499 miles. Further analysis disclosed 11 of the 18 agencies specifically met OA's guidance on fleet utilization. However, those 11 agencies accounted for \$55 million, or 76 percent of total mileage reimbursements made to state employees during fiscal years 2001 through 2005. (See Appendix I for the breakdown of mileage reimbursement amounts by agency.)

OA guidance requires fleet pool vehicles¹⁷ be driven an average of 15,000 miles per year and OA monitors agencies through fleet data submitted by these agencies. According to OA officials, agencies not complying with OA's guidance on fleet mileage will not be allowed to purchase replacement vehicles.

Options could better meet needs of agencies

OA is considering¹⁸ establishing a centralized fleet of pool vehicles to supplement the needs of agencies and reduce mileage reimbursement costs. Under this concept, OA officials are considering acquiring fleet vehicles from agencies that are underutilizing fleet pools. This change would enable those agencies that have a greater need to access additional vehicles and it would help ensure higher utilization for the entire state fleet, according to OA officials.

Officials with OA and three agencies acknowledged reimbursing employees for use of personal vehicles is costly and that additional state vehicles could help reduce mileage reimbursement costs. However, the three agency officials said obtaining additional vehicles is unlikely due to state fiscal problems, and the executive order barring agencies from purchasing vehicles since January 11, 2005.

¹⁵ Executive agencies excluded MoDOT and Conservation. We also excluded the Lt. Governor's Office because it did not report any usage data for fiscal year 2004.

¹⁶ Excludes the Governor's Office because it did not have any pool vehicles.

¹⁷ These vehicles are general use vehicles available for temporary assignment to agency employees.

¹⁸ As of July 1, 2005.

OA is researching the possibility of a lease-purchase program, referred to as municipal leasing, to avoid the initial costs of purchasing additional vehicles. According to OA's 2003 fleet report, municipal leasing is an option utilized by government entities (including MoDOT) for funding essential equipment purchases. The benefits include: reduced up front capital costs, no long-term debt obligation to the state, tax exempt rates make it more cost-effective than conventional lease programs, no mileage or wear and tear restrictions, vehicle is titled and licensed to the state during the lease term, and vehicle is retained by the state at the end of the lease. According to the 2003 report, municipal leasing would increase vehicle cost per mile less than \$0.01.

More Efficient Fleet Management Could Reduce Costs

Fleet costs could be reduced by increasing OA's vehicle replacement criteria without a significant increase in operating costs. In addition, costs could be reduced by requiring agencies to consider surplus vehicles prior to purchasing new vehicles, improving OA's new vehicle approval process, and requiring agencies to justify purchases of SUVs.

Increasing vehicle replacement mileage criteria could reduce fleet costs

Our analysis of fleet data showed the state could potentially reduce fleet costs by increasing the minimum replacement mileage criteria for fleet vehicles.¹⁹ For example, we determined increasing OA's vehicle replacement mileage criteria from 105,000 miles/7 years to 135,000 miles could reduce fleet costs by approximately \$2 million because it would allow the state to delay purchasing new vehicles without a significant increase in maintenance costs.

Subsequent to our 2001 report, OA established minimum mileage replacement criteria for agency use in determining when to replace state vehicles. OA initially established criteria for passenger cars of 4 years or 60,000 miles. In February, 2004, OA increased the criteria to 7 years or 105,000 miles. According to OA officials, they established the 105,000 mile/7 year guidance by researching other states' criteria. Once they found an accepted mileage amount, they divided by 15,000 miles, the minimum yearly mileage average established by OA for pool vehicles, which resulted in 7 years.

According to OA data, the state has approximately 2,900 fleet vehicles²⁰ subject to OA's mileage replacement criteria. For illustrative purposes, we assumed all fleet vehicles would be disposed of at 135,000 miles—an

¹⁹ For all vehicles with a gross vehicle weight rating of less than 8,500 pounds.

²⁰ This total excludes the MoDOT, Conservation, the Missouri Highway Patrol, and colleges and universities.

increase of 30,000 miles—and the residual value remained the same at \$1,800. The mileage increase would save the state \$660 (30,000 x \$.022)²¹ per vehicle, or approximately \$2 million (\$660 x 2,900). This change would also allow the state to delay the purchasing of new vehicles without a significant increase in maintenance costs.

M&R costs would not increase significantly with criteria change

OA fleet cost data disclosed annual maintenance and repair (M&R) costs would not increase significantly by increasing mileage replacement criteria. For example, OA's data showed increasing the criteria to 135,000 miles would increase M&R costs by an average of \$41 per vehicle. Table 2.3 depicts the increase in maintenance cost at different mileage levels.

Table 2.3: Annual M&R Costs by Mileage Categories

Mileage	Average model year	Total average mileage	Average mileage 2004	Average annual M&R costs	Number of vehicles
50,000 - 105,000	1998	79,417	12,831	\$542	1,292
105,001- 125,000	1997	113,907	15,003	584	382
125,001-150,000	1996	135,347	14,389	625	246
Over 150,000	1996	173,438	16,247	742	135

Source: SAO analysis of OA data.

As shown above, maintenance costs did not increase significantly until vehicle usage reached 150,000 miles or more.

OA officials told us they were not opposed to considering increasing the replacement criteria since surplus vehicles averaged 121,000 miles in fiscal year 2004. Department of Agriculture officials did not oppose increasing the replacement criteria. They also indicated Agriculture vehicles are driven an average of 120,000 miles. An official at the Department of Insurance told us the department used M&R costs in deciding when to replace vehicles and replaces vehicles at 120,000 miles. Officials at the Department of Economic Development told us the current criteria of 105,000 miles is adequate because after 105,000 miles, some employees believe vehicles are unsafe.

OA policy has not required agencies to consider surplus vehicles

OA has not established a policy requiring agencies to justify why the agency chose to buy new vehicles instead of buying from surplus property. We found agencies purchased 303 vehicles during 2004. Of that amount, 177 (58 percent) represented new purchases and 126 (42 percent) represented

²¹ We used OA's depreciable base of \$10,446 (\$12,246 - \$1,800) for fiscal year 2005 and divided by 105,000 which equals \$0.099 per mile. We then divided the depreciable base of \$10,446 by 135,000 which equals \$0.077 per mile, a difference of \$0.022 per mile.

surplus property purchases. For the new vehicles purchased, we found no documentation showing whether the agencies considered surplus property inventory prior to purchasing new.

Purchasing surplus vehicles could potentially reduce fleet costs. For illustrative purposes, we analyzed 20 similar surplus vehicles with an average odometer reading of 34,966 miles²² and an average break-even value of \$9,109.²³ The agencies spent an average of \$6,393 each for these vehicles, and saved the state \$2,716 per vehicle.²⁴ In our example analysis, the agencies saved the state approximately \$54,000 by buying surplus vehicles rather than buying new vehicles.

According to OA's fleet manager, the decision to buy a surplus or new vehicle has been left to the individual agencies and what the agencies can afford. For example, the Department of Health and Senior Services purchased 43 surplus vehicles²⁵ during 2004, according to OA data. The Department of Agriculture considers surplus vehicles when deciding to purchase additional vehicles and is on the State Agency for Surplus Property calling list, according to a department official. A Department of Economic Development official told us new vehicles can be purchased at discounted prices, so it makes more sense to purchase new vehicles.

Purchase approval process could be improved

Our review of agency requests for 305 vehicle purchases, during fiscal year 2004, disclosed OA approved purchase of 42 vehicles by 4 agencies that had not complied with OA's policy requiring agency fleets to average 15,000 per year. This situation occurred because the fleet manager approved all purchases of vehicles based on current conditions and projections of agencies' current utilization at the time of the request, not on historical data. For example, if an agency requested a vehicle purchase in the second quarter of the fiscal year, the fleet manager would approve or deny the purchase based on utilization data for the first and second quarters and assume similar usage for the rest of the year.

OA's fleet policy requires the fleet manager to pre-approve all purchases of state vehicles with a gross vehicle weight requirement less than 8,500

²² Includes vehicles surplused by the Federal Government.

²³ We developed a break-even value formula to aid in deciding when to purchase surplus versus purchasing new vehicles: $\text{New Vehicle Cost} - [\text{Odometer Reading (Surplus)} \times \text{Depreciation cost/mile} (\$0.086 \text{ per the trip optimizer})]$.

²⁴ For illustration purposes, we assumed M&R costs remained constant over the life of the vehicle.

²⁵ According to a department official, 34 represented replacement vehicles and 9 represented additional vehicles.

pounds, except for law enforcement pursuit vehicles. Any expansion of agency vehicle fleets must also be approved by the fleet manger. OA's policy also requires agencies to demonstrate a compelling need for expansion and requires existing agency vehicles to be utilized according to minimum utilization requirements outlined in OA's policy.

According to the fleet manager, if an agency generally has not complied with OA's fleet vehicle policy, requests have been denied. As discussed on page 12, we found 11 of 18 agencies complied with OA's usage policy while 7 agencies did not comply. However, OA denied only 1 of 305²⁶ vehicle purchase requests during fiscal year 2004, citing non-compliance.

According to OA's Director of General Services and the fleet manager, OA implemented its pre-approval process in 2004, and they believe the approach represented the best approach at that time since OA did not have accurate historical data. The officials also stated some agencies did not ask for pre-approval of purchases because the agencies were not in compliance with OA guidance.

Policy needed to justify purchase of SUVs

Agencies have been allowed to purchase SUVs which, according to OA data for 2004, costs the state approximately \$0.34 per mile compared to \$0.199 per mile for mid-size sedans. However, OA's vehicle policy has not set forth criteria to be met or required additional justification, prior to the purchase of SUVs. Our review of OA's fleet information system data disclosed the state had 226 active SUVs, as of June 30, 2004. Of the 226, 21 (9 percent) had been purchased in fiscal year 2004.

Conclusions

Opportunities exist to reduce mileage reimbursements to employees and other fleet costs. The state spent approximately \$72 million reimbursing state employees for vehicle mileage for fiscal years 2001 through 2005. Of that amount, 12 agencies spent approximately \$67 million. However, state agencies have not always tracked and/or analyzed mileage reimbursement data to determine alternatives that could reduce costs.

OA has established a trip optimizer to assist agency employees in determining the most cost-effective mode of transportation. However, OA has left its use to the discretion of state agencies. Because the trip optimizer has been designed to promote the use of low-cost transportation, OA should make its use mandatory by state agencies. State agencies reviewed also have not always tracked and/or analyzed all costs associated with transportation

²⁶ In addition to this vehicle purchase denial, OA also denied one vehicle purchase request for a reason other than non-compliance with OA's fleet vehicle policy.

modes used by employees. Without such analyses, agencies cannot determine whether employees are using the most cost-effective mode of transportation. Agencies should track employee transportation modes and analyze that data to help determine cost-effective alternatives for employees.

Using state vehicles and/or rental vehicles can reduce transportation costs. Our analysis disclosed significant savings could be achieved by providing state vehicles to employees meeting OA's usage criteria of 15,000 miles a year. We also found using rental vehicles can reduce mileage reimbursement costs.

Some state agencies reimburse employees less when the most cost-effective mode of transportation is not used. However, OA has not instituted a policy establishing the maximum reimbursement to be made to employees when the most cost-effective mode of transportation is not used. According to OA officials, OA intends to create a policy to address this issue. OA should require agencies to reimburse at a reduced rate when employees do not use the most cost-effective mode of transportation.

The state could also reduce mileage reimbursements by reducing vehicle assignment criteria. OA has concluded once employees drive more than approximately 5,900 miles a year, it becomes cost-effective to assign those individuals a vehicle when other lower cost options are not available. However, OA's current criteria for assigning vehicles is 15,000 miles. It would be cost-beneficial to reduce vehicle mileage criteria to an appropriate level determined by OA and assign vehicles to individuals when other lower cost options are not available.

Our analysis of pool vehicle utilization showed 18 agencies met OA's average utilization guideline of 15,000 miles a year for fiscal year 2004. However, 11 of those agencies also accounted for \$55 million of \$72 million in mileage reimbursements to employees during fiscal years 2001 through 2005. OA needs to evaluate the cost-benefit of additional fleet vehicles to reduce the state's mileage reimbursement expenditures. OA and three agency officials acknowledged that reimbursing employees for mileage is costly and that additional pool vehicles could help reduce transportation costs. However, the three agency officials believe funding for increased purchases of vehicles is unlikely given the state's financial condition.

To help meet agency needs, OA is considering establishing a centralized fleet of pool vehicles. OA should evaluate the feasibility of this approach as one means of meeting agency needs.

When additional vehicles are to be purchased, OA is considering a low-cost municipal lease option that would allow the state to avoid large initial funding outlays. OA should evaluate this option to achieve cost savings for the state when additional vehicles are needed.

Fleet costs could also be reduced by increasing vehicle replacement mileage criteria. Our analysis, based on an assumed mileage increase from 105,000 miles to 135,000 miles, showed the state could potentially reduce fleet costs by approximately \$2 million. OA cost data showed increasing the criteria could be accomplished without significantly increasing M&R costs. Increasing vehicle replacement criteria would also allow the state to delay the purchase of replacement vehicles.

OA has not required agencies to consider purchasing surplus vehicles when replacement vehicles are needed. Although agency purchases of surplus vehicles represented 42 percent of total vehicle purchases during fiscal year 2004, opportunities may exist to increase that amount. Based on our analysis it is cost-effective to purchase surplus vehicles when the vehicles meet agency needs. OA should establish a policy requiring agencies to formally consider the purchase of surplus vehicles prior to purchasing new vehicles.

Our review of vehicle purchase requests disclosed OA approved agency requests based on projections of agency fleet utilization. OA's purchase approval process should be based on historical data as well as current conditions to better ensure agencies comply with OA's minimum fleet utilization requirements.

OA's fleet vehicle policy has not set forth criteria to be met, or required additional justification, prior to the purchase of more costly SUVs. While we recognize some agencies have rationale for using SUVs, OA should establish a policy requiring agencies to justify SUV purchases.

Recommendations

We recommend the Commissioner of the Office of Administration:

- 2.1 Require state agencies to analyze mileage reimbursements to determine alternatives to reduce mileage reimbursements.
- 2.2 Require state agencies to use the trip optimizer to help state employees choose the most cost-effective mode of transportation, and establish a maximum mileage reimbursement rate when more costly modes of transportation are used, unless justified.

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- 2.3 Reduce vehicle assignment criteria by an appropriate amount and assign vehicles when other cost-effective options are not available in order to reduce reimbursement expenditures.
 - 2.4 Evaluate the cost-benefit of investing in additional fleet vehicles to reduce the state's mileage reimbursement expenditures and consider the feasibility of a lease-purchase program for future purchases of vehicles.
 - 2.5 Increase vehicle replacement mileage criteria.
 - 2.6 Establish a policy requiring agencies to formally consider purchasing surplus vehicles instead of new vehicles when replacing fleet vehicles.
 - 2.7 Base vehicle purchase pre-approval process on historical data and current conditions instead of fleet utilization projections.
 - 2.8 Establish criteria in policy requiring agencies to justify the purchase of SUVs.

Agency Comments

Office of Administration Comments

- 2.1 *Already doing. The Office of Administration had previously identified this issue and proposed a program to provide state vehicles for employees receiving specific levels of mileage reimbursement. This program, entitled "Smart Lease," has been approved and will provide agencies with a lower cost alternative to mileage reimbursement for certain employees. The Office of Administration, State Fleet Management Program will provide annual mileage reimbursement data to state agencies for review and analysis. Agencies will be encouraged to redirect mileage reimbursement travel to other less costly options whenever possible.*
- 2.2 *We have improved the former administration's policy. Since the inception of the Trip Optimizer, the Office of Administration, State Fleet Management Program has extensively promoted its use as a valuable tool to assist agencies in determining the most cost effective mode of transportation. State Travel Regulations currently require state agencies and employees to utilize the most economical mode of travel. However, OA will further emphasize the need for agencies and employees to make appropriate travel decisions through issuance of a new travel policy requiring the use of the Trip Optimizer or other equivalent tool. This new policy will also establish a maximum mileage reimbursement rate if employees elect to use their personally owned*

vehicles in lieu of less costly options such as state vehicles or rental vehicles.

- 2.3 *We agree to grant exceptions to the current minimum mileage requirement when other more cost effective options are not available. We believe all state vehicles should be utilized to the fullest extent possible, and that in most instances vehicles assigned for the exclusive use of one employee should be driven a minimum of 15,000 miles on state business. We strongly encourage agencies to pool vehicles or utilize fleet rotation to maximize fleet efficiency. If pooling is not an option, OA will allow individual assignment of vehicles to employees traveling less than 15,000 miles but above the established break-even point.*
- 2.4 *Are already addressing. The Office of Administration is ready to kickoff its new Smart Lease vehicle financing program which will provide additional fleet resources for agencies and offset certain employee mileage reimbursement expenditures. Smart Lease is in its final stages of development and will be fully implemented by the end of FY '06.*
- 2.5 *We concur. The State Vehicle Policy currently contains a minimum replacement threshold of seven years or 105,000 miles. Data from the State Fleet Management program indicates that state vehicles are currently disposed of through State Surplus Property well in excess of the current minimum replacement threshold. The average odometer reading of all vehicles surplusd in FY '05 was 125,910 miles. The Office of Administration will recommend an increase in the minimum mileage replacement threshold in the upcoming revision to the State Vehicle Policy.*
- 2.6 *We concur. The State Vehicle Policy will be modified to encourage agencies to consider purchasing surplus vehicles when replacing state vehicles.*
- 2.7 *OA will continue to use historical utilization data along with fleet utilization projections in making pre-approval decisions. Prudent management of the state fleet requires OA to consider not only historical usage patterns but also how planned changes to an agency's responsibilities, organizational structure or manner in which it delivers services will impact its fleet utilization. OA will also consider how fleet changes undertaken by agencies to improve fleet efficiency will prospectively impact the agency. It is not the intent of the Office of Administration to penalize agencies that can provide documentation of*

actions taken in good faith that would improve the efficiency of their fleets.

On June 1, 2004, the State Fleet Management Program implemented an upgrade to the State Fleet Information System to more accurately classify vehicles consistent with our State Vehicle Policy assignment criteria. This system upgrade occurred at the end of FY '04 resulting in the reclassification of many vehicles and consequently impacted the accuracy of FY '04 projections used in pre-approval decisions throughout the year. We currently have three years of state vehicle data and are better equipped to access the efficiency of agency fleets.

The Office of Administration believes the audit report does not completely reflect the positive impact the pre-approval process has had on overall fleet efficiency. Agencies with known non-compliance issues did not submit requests for vehicle purchases until those issues were resolved. In the first year of the process, numerous agencies were required to improve efficiencies in various areas of their fleet that were non-compliant with policy guidelines.

2.8 We concur. Since the inception of the vehicle preapproval process in 2003, the Office of Administration has required additional justification from agencies before approving the purchase of SUVs. For several SUV requests, OA determined sedans or light trucks could more appropriately meet agency needs. OA will formalize its current practice by modifying the State Vehicle Policy to require additional justification for the purchase of SUVs.

Each agency mentioned in this chapter was given an opportunity to respond to a draft of this report. Responses provided by the Departments of Corrections, Health and Senior Services, Mental Health, and Social Services are in Appendix II. The Departments of Agriculture, Economic Development, Elementary and Secondary Education, and Insurance chose not to provide written comments.

Enhancements to Conservation and MoDOT Fleet Programs Could Reduce Costs

The Departments of Conservation and Transportation (MoDOT) could reduce mileage reimbursement costs and fleet costs by requiring (1) employee use of the least costly mode of transportation, (2) the procurement of surplus vehicles when beneficial, and (3) criteria for the procurement of SUVs. In addition, the departments' policies and guidance have not always addressed vehicle replacement criteria, vehicle assignments and/or minimum mileage use requirements, and use of vehicle mileage logs and/or the method for tracking vehicle usage.

Conservation and MoDOT Fleet Policies Independent of OA

Conservation and MoDOT have chosen not to follow OA's fleet policies. Both agencies provided rationale for not following OA's fleet policy in separate letters addressed to OA. (See Chapter 1 for OA established fleet management policies for state agencies.)

In a December 2003 letter, Conservation stated OA's fleet policy placed restrictions on the authority of the department and the Commission, and placed decision-making authority with an official removed from the needs of Conservation customers and the mission of the department. Conservation also stated the policy placed administrative burdens on the department with little or no benefit and none of OA's requirements could be enforced on the department. According to the letter, Conservation had adopted policies and guidelines that made good business sense for citizens and the department.

MoDOT informed OA why it would not follow OA's guidance in a letter dated November 13, 2003. The letter stated, "The MoDOT fleet program has, and will continue to, provide that same oversight for the MoDOT fleet. I think you will agree that a fleet comprised of the unique units we have requires a different, maybe higher, level of oversight. We have committed the necessary resources to ensure an adequate fleet management program is in place. This includes replacement funding, policies and procedures, staffing, technical and IT support, data collection analysis and management reporting. Due to the commitment of resources we have made within MoDOT, I feel it is inappropriate to provide resources to another agency for virtually the same purpose."

Reduction of Transportation and Fleet Costs Possible

Conservation and MoDOT have not maximized opportunities to reduce costs because they have not always ensured (1) employees use the least costly mode of transportation, (2) surplus vehicles have been considered for purchase, and (3) purchases of SUVs have been justified.

Use of least costly transportation not always ensured

Both agencies have not addressed employee use of the least costly mode of transportation in fleet policies and/or formal guidance. For example, employees have not been required to use rental vehicles when it is cost-

effective, and employees have not been required to use OA's trip optimizer to assist in determining the least costly mode of transportation.

Conservation

According to a Conservation official, employees have been required to justify the mode of travel and division supervisors have monitored and held employees accountable. Conservation policy encourages the use of department vehicles; however, it allows for mileage reimbursement for personal vehicle use. Some divisions also have restrictions on how and when employees are reimbursed and require prior approval, according to department officials. The department has considered renting vehicles, but the department has not required employees to do so, as of June 30, 2005, according to a department official.

The trip optimizer has been added to the department's intranet, but it has not been promoted, or required to be used, according to a Conservation official. The official also stated it would be an administrative burden to require employees in remote areas to use OA's trip optimizer. However, in discussing this issue with us, the official stated the department would consider requiring use of the trip optimizer in areas where appropriate and include its use in formal guidance.

Conservation records showed it reimbursed employees \$201,295 for 583,464 miles in fiscal year 2005. An official also told us the department is going to start reviewing mileage reimbursement quarterly to determine who is claiming a lot of reimbursable miles and hold division heads accountable for selected modes of travel.

MoDOT

According to MoDOT officials, employees have the option of using state vehicles, rental vehicles, or personal vehicles. The department requires employees to justify modes of travel and encourages employees to use a pool vehicle when available, according to an official. MoDOT policy states, "Employees will be allowed to use their personal vehicle, when authorized, to conduct official department business as an alternative to using a department vehicle, and will be reimbursed for the expense... Written authorization or approval should first be obtained from the employee's immediate supervisor before an employee uses his or her personal vehicle."

According to an official, the department has made OA's trip optimizer available to employees, but the department has not required its use in policy. In addition, MoDOT has not determined whether districts have used it, according to the official. However, MoDOT's General Services Division is now using OA's trip optimizer to help determine the most efficient mode of transportation, according to the official. When employees want to travel, they should contact General Services to determine the availability of a state

vehicle. If none is available, General Services usually recommend the next best option. The official told us employees use the state vehicle rental contract and MoDOT also contracts with other vehicle rental vendors.

MoDOT records showed it reimbursed employees \$167,123 for 484,414 miles in fiscal year 2005. One official told us employee reimbursements increased in 2005 because the department has reassigned pool vehicles to work units where there is more need. In discussing this issue with us, the official told us MoDOT plans to start conducting analyses of employee reimbursements and, based on our work in identifying employees reimbursed for 10,000 miles or more, MoDOT plans to establish procedures to identify employees driving over 10,000 miles a year and will consider a more cost-effective mode of travel for those individuals.

Consideration of surplus vehicles not required

Neither agency has required employees, through policy, to consider the purchase of surplus vehicles, or justify why they chose to buy new vehicles rather than buy vehicles from surplus property. As discussed in Chapter 2, our analysis of state agency purchases in 2004 disclosed 42 percent of vehicles purchased represented surplus vehicles and cost savings can be achieved.

According to a Conservation official, the department would consider going to surplus property; however, the department has not purchased surplus vehicles in 5 years. In discussing this issue, the official stated the department will establish formal guidelines to require consideration of surplus vehicles, when feasible.

According to a MoDOT official, MoDOT has purchased surplus vehicles from the Missouri State Highway Patrol and is currently on surplus property's waiting list. In discussing this issue with us, an official agreed a policy requiring consideration of surplus vehicles is needed.

Policy needed to approve and justify SUV purchases

The agencies have not established formal procedures for purchases of SUVs. As discussed in Chapter 2, SUVs are more expensive to operate on a per mile basis. According to officials from both agencies, they discourage the purchase of SUV's. For example, Conservation officials told us they reduced the number of SUVs from approximately 139, as of December 31, 2000, to 28, as of May 6, 2005. In addition, only one division had authorization to purchase SUV's at the time of our review, according to a department official. In discussing this issue with us, the official stated the department will establish formal guidelines to address the purchase of SUVs.

MoDOT requires SUV requests be approved by the Director of Administration, according to one department official. According to another official, SUVs have been needed to haul equipment and to transport district crews. However, MoDOT is evaluating future purchase of four-wheel drive trucks instead of SUVs, according to the official, and plans to consider establishing a policy addressing purchases of SUVs as well as four-wheel drive trucks.

Fleet Policies Could Be Improved

Conservation and MoDOT guidance and policies address vehicle usage, commuting, maintenance and safety, equipment disposal and equipment reporting requirements. MoDOT's policy also addresses equipment retention, fleet leasing, minimum use requirements, and vehicle rental. However, Conservation and MoDOT have not addressed certain fleet management practices. For example, Conservation has not established an overall policy on fleet management. In addition, the department has not addressed minimum vehicle replacement criteria, vehicle assignments, minimum use requirements, and use of vehicle logs in formal guidelines.

Conservation vehicle replacement criteria not included in formal guidelines

According to a Conservation official, the department established informal minimum vehicle replacement criteria of 95,000 miles for vehicles weighing less than 8,500 pounds. During fiscal year 2004, vehicle replacement averaged approximately 109,000 miles, according to our analysis. The department has replaced vehicles at an average of 110,000 miles, during fiscal year 2005, according to the officials. At 110,000 miles if a vehicle is in good condition with low M&R costs, it is transferred to an area which requires a vehicle for minimal use. The vehicle is driven another 10,000 miles and replaced at 120,000 miles, according to the officials. Department officials did not believe it would be beneficial to increase vehicle replacement criteria beyond 120,000 miles due to increased M&R costs.

According to a department official, Conservation's vehicle replacement mileage point fluctuates from year to year, so the official did not believe replacement criteria needed to be addressed in policy. However, in discussing this matter with us, the official stated the department would consider establishing formal guidance on this matter.

Vehicle assignment and minimum use requirements not addressed

Conservation has not addressed vehicle assignments in policy or formal guidance. However, according to a department official, vehicles have not been permanently assigned to individuals, except for approximately 220 enforcement officers. Other vehicles have been permanently assigned for reporting and maintenance purposes and most have been used for various tasks. Because permanent assignments are only to law enforcement employees, the official told us policy or formal guidance is not warranted.

The department also has not addressed minimum use requirements in policy or formal guidance. However, the department established an informal minimum use requirement of 15,000 miles for pool vehicles, which is consistent with OA policy, according to department officials.

Our analysis of 19 pool vehicles disclosed the vehicles had been driven an average of 16,928 miles in fiscal year 2004. However, according to department officials, there are approximately 80 additional vehicles at regional offices that have been used as pool vehicles but have not been subject to the 15,000 mile requirement. The official told us once the department's new data management system is fully functional, the department intends to re-evaluate the utilization of these vehicles and track usage against the 15,000 mile requirement, as appropriate.

The department also established an informal guidance requiring all other vehicles (i.e., special purpose/task vehicles) used 5,000 miles or less, be reviewed to ensure vehicles are justified. According to Conservation records, 21 active vehicles had been driven less than 5,000 miles in fiscal year 2004. Most of these vehicles represent high mileage vehicles for low usage applications, according to a department official.

Vehicle logs not required

The department has not required the use of vehicle logs for Conservation vehicles. Instead, vehicle mileage is recorded monthly in the form of a vehicle expense report along with the variable costs associated with each vehicle. According to an official, monthly M&R reports are also prepared on each vehicle. The official told us daily trip logs have not been required because all vehicles have state plates and the department's logo on both sides of the vehicle. The official believes the logo and state plates provide a stronger and more effective control.

OA's fleet vehicle policy states vehicle usage logs must be maintained for each state vehicle and include the following information: name of driver, date(s) used, beginning and ending odometer readings, destination and purpose of use.

Some MoDOT policies not formalized

MoDOT policies have not addressed minimum vehicle replacement criteria and methods for tracking vehicle usage. According to a department official, while the vehicle replacement criteria had not been included in fleet policy, the life expectancy of various types of vehicles has been addressed in informal guidelines.

According to the official, pool vehicles have been replaced at 120,000 miles, on average, regardless of the age of the vehicle. Another MoDOT official told us MoDOT also reviews the M&R history of vehicles and

reassign vehicles in good condition to other work units. This official also told us before divisions dispose of vehicles, the divisions post a 30-day internal notice to allow other divisions the opportunity to obtain and use the vehicles. In discussing vehicle replacement criteria, an official stated MoDOT would not oppose increasing the vehicle replacement criteria.

According to the MoDOT vehicle policy, "all MoDOT vehicles and other equipment designated for pool use, shall have a method of documenting the use of said vehicles and equipment." However, MoDOT has not addressed its method for documenting this requirement in formal guidelines. In addition, MoDOT has not addressed special function or task specific vehicles in its policies or formal guidelines. According to a department official, MoDOT tracks vehicle mileage information electronically on its internal fleet system. According to the official, every time a pool vehicle is checked out and returned, the odometer reading is entered into the system. According to the official, for non-pool vehicles the mileage information is entered twice a month and sometimes it is entered weekly.

Conclusions

Opportunities exist for Conservation and MoDOT to reduce employee mileage reimbursements, and fleet costs, and improve fleet operations. Neither agency has required employees to use rental vehicles when it is cost-effective or required employees to use OA's trip optimizer to assist in determining the least costly mode of transportation. The departments should require employees to use the least costly mode of transportation, when feasible, and require employees to use OA's trip optimizer to help determine the most cost-effective mode. The departments also have not adequately monitored mileage reimbursements. The departments' plans to increase monitoring of mileage reimbursements made to employees should help identify those high mileage employees so more cost-effective modes of transportation can be used.

The departments should establish policies and/or formal guidance requiring employees to consider purchasing surplus vehicles instead of new vehicles because it can be cost-effective. The departments also have not established policies or formal guidance detailing procedures for purchases of SUVs. Although the departments do not have many SUVs, these vehicles are more expensive to purchase and operate. Therefore, the departments should require divisions to justify purchases when made.

The departments have not always included guidance in fleet policies or established formal guidelines in some areas. Conservation has addressed fleet vehicle requirements through informal guidance; however, the department has not established an overall policy addressing fleet management. Sound business practices dictate the department establish an overall policy on fleet management and formalize existing department

guidance. Conservation should establish and/or formalize guidance on minimum vehicle replacement criteria, vehicle assignments, and minimum use requirements. Although pool vehicles tracked have met the department's informal requirement of 15,000 miles a year, the department has not determined whether approximately 80 vehicles assigned to offices have met the department's 15,000 usage criteria. The department should determine whether these vehicles meet that criteria and take appropriate action, if needed, to increase usage.

MoDOT has not addressed minimum vehicle replacement criteria in its vehicle fleet policy. Although it has established informal guidance on the life expectancy of different types of department vehicles, MoDOT should formalize its guidance in policy. MoDOT also has a method in place for tracking usage of its vehicles, but that methodology has not been addressed in its vehicle fleet policies. While MoDOT has procedures for accomplishing these tasks, it is important to document these procedures in MoDOT's fleet policy.

Recommendations

We recommend the Directors of the Departments of Conservation and Transportation:

3.1 Establish policies and/or formal guidance to require

- employees use OA's trip optimizer to help determine whether state vehicles, rental vehicles, or personal vehicles should be used for transportation;
- the tracking and monitoring of mileage reimbursements; and
- consideration of surplus vehicles and
- justification of SUVs.

We recommend the Director of the Department of Transportation:

3.2 Formalize guidance and/or establish fleet policies on minimum vehicle replacement criteria.

We recommend the Director of the Department of Conservation:

3.3 Establish an overall policy that establishes the fleet management program and the roles and responsibilities of the fleet manager.

3.4 Formalize guidance and/or establish fleet policies on minimum vehicle replacement criteria, vehicle assignments, minimum use requirements, and tracking vehicle use.

Agency Comments

Department of Conservation Comments

3.1 *We will add a comment to our Business Policy Manual encouraging staff to consider use of a rental vehicle and the standardized trip optimizer when a department vehicle is not available, provided a contracted rental facility is available locally.*

Although responsibility for maintenance of the fleet is addressed in the Fleet Manager's job description and his annual work plan, he will formalize his detailed procedures in written guidelines/desk-top procedures. These guidelines will specifically address his responsibility to monitor and review mileage reimbursement in conjunction with our Internal Auditor, to consider surplus vehicles when making additions or replacements to our fleet, and to require written justification for purchases of SUVs and specialty vehicles.

3.3 *Authority for the Fleet Manager has been established in our Internal Budget Instructions and his fleet management responsibilities outlined in his job description.*

3.4 *Guidance for fleet management has always been provided by top management and General Services and communicated internally through e-mails and budget instructions. Guidance is provided on minimum mileage for replacement, what types of vehicles to be purchased, minimum use requirements and vehicle assignments. Based on this guidance, the Fleet Manager determines what vehicles need to be replaced or transferred to other facilities to maximize use and effectiveness. The Fleet Manager is also responsible for making all necessary fleet purchases and preparing vehicles for disposition at our surplus auctions. Since this is all handled internally in Central Office, our e-mail correspondence and verbal discussions have been effective and sufficient. However, we will formalize these procedures and annual criteria in the written guidelines mentioned above.*

Department of Transportation Comments

3.1 We will meet with all districts in the next month to provide training on the trip optimizer so everyone understands the value of this tool.

The Controller's Office is working on a report that will monitor mileage reimbursements. This report will be shared with managers statewide.

We will insert a statement in our policies about considering vehicles and/or equipment from state surplus. We have an approval process for acquisition of SUVs but have not formalized it. We will do so.

3.2 We have these values established and will post them on our internal website so our employees can access the information easily. Please note this criteria is intended to be used as a guideline only as there are other factors such as maintenance and repair costs and age that need to be factored into the decision-making process.

Opportunities Exist to Reduce Costs and Improve State University Fleet Programs

Opportunities exist to reduce transportation costs and improve fleet operations at Missouri universities. The University of Missouri, Missouri State University, and Northwest Missouri State University (Northwest) could possibly reduce mileage reimbursements and fleet costs by tracking and/or monitoring mileage reimbursements, and by requiring (1) employee use of the least costly mode of travel, (2) the procurement of surplus vehicles when cost-beneficial, and (3) criteria for the procurement of SUVs. In addition, the universities' fleet policies have not always addressed minimum mileage use requirements, vehicle replacement policies, mileage logs, justification for commuting, and guidance for assigning state vehicles to individuals. Missouri universities also have not ensured fleet vehicles are fully utilized.

Cost Reduction Possible

Our analysis of the University of Missouri, Missouri State University, and Northwest data disclosed none of these entities have monitored mileage reimbursements to employees. In addition, the universities' policies and procedures did not address (1) employee use of the least costly mode of travel, (2) the procurement of surplus vehicles when cost-beneficial, and (3) criteria for the procurement of SUVs.

As discussed in Chapter 1, OA established a state vehicle policy for state agencies in January 2002. This policy is to ensure state vehicles are acquired, assigned, utilized, replaced and maintained in the most efficient and effective manner to conduct state business. The policy allows agencies to adopt additional policies provided they do not conflict with the provisions of the statewide policy. This policy applies to all state agencies or other unit(s) of the executive branch of state government.

A Department of Higher Education official told us the state colleges and universities established fleet management policies and procedures independent of OA because these institutions are governed separately from executive branch agencies. However, the schools have voluntarily elected to send yearly vehicle data to OA for inclusion in OA's annual report.

Mileage reimbursement not monitored

One university—Northwest—tracked mileage reimbursements to employees. However, the University of Missouri and Missouri State University had no means of tracking mileage reimbursements, and none had established policies to monitor mileage reimbursement.

Northwest records showed the university spent \$160,089 in mileage reimbursement in fiscal year 2004. However, according to a university official, mileage reimbursement data has never been analyzed. In discussing this matter with us, university officials told us analysis of reimbursement data will become an integral part of fleet management and believe with

policy changes and better utilization of the existing fleet, these reimbursement amounts will be reduced.

A University of Missouri official told us the university had no way of determining the amount of reimbursements made to employees because mileage reimbursements have not been tracked independently. According to the official, changes would have to be made to system software in order to track mileage reimbursements.

Missouri State University officials told us they have never tracked or analyzed mileage reimbursement amounts or compared results to the utilization of the existing fleet. However, in discussing these issues with us, officials stated they plan to do this analysis in the future. University officials also told us planned changes to policy, requiring employees to first use motor pool vehicles prior to renting a vehicle or using a personal vehicle, should ensure utilization of the motor pool and reduce mileage reimbursements.

Employees not required to use least costly mode of transportation

We found none of the entities reviewed had established policies requiring employees to use the most cost-effective mode of travel or to justify the mode of travel when the least expensive mode has not been used.

University of Missouri officials told us employees have not been required to use the most efficient travel option and travel modes are at the discretion of the departments. For example, if an employee used a personal vehicle instead of an available university pool, the university reimbursed the employee at the federal reimbursement rate of \$0.375 per mile, which is \$0.03 above OA's rate of \$0.345 per mile²⁷ for state employees. In discussing this issue with us, an official told us requiring employees to use the least costly mode of transportation will be a topic of discussion with the policy committee.

Missouri State University policy states employees must give the university motor pool first opportunity to meet transportation needs prior to authorizing rental. However, it does not address consideration be given to the motor pool prior to authorizing mileage reimbursement for a personal vehicle. University officials told us the departments decide which travel option will be used by employees. In discussing this issue with us, they agreed a revised policy may be warranted requiring employees to first consider the university's motor pool prior to authorizing any other travel mode.

²⁷ As of June 30, 2005.

Northwest officials told us employees have not been required to use the most efficient travel option and travel modes are at the discretion of the departments. In discussing this issue with us, officials agreed this issue needs to be addressed with department officials. According to a Northwest official, the university will consider requiring employees to first consider pool vehicles prior to authorizing mileage reimbursement in a personal vehicle.

Consideration of surplus vehicles not always required and/or included in policy

A University of Missouri official told us the university has purchased surplus vehicles; however, departments have not been required to consider buying surplus vehicles before purchasing new vehicles. Instead, the decision has been left up to the individual department to decide where to purchase vehicles, according to the official. In discussing this matter with us, the official agreed it would be a sound business practice to consider purchasing surplus vehicles when practical and it will be considered during the next policy update.

Missouri State University and Northwest officials told us they always consider surplus vehicles when vehicles are needed for replacement and expansion. However, consideration of surplus vehicles has not been addressed in either university's fleet policies. In discussing this issue with us, officials from both institutions told us it would be considered for inclusion in the universities' fleet vehicle policies to formalize the process.

Approval for SUV purchases not required

University of Missouri officials have not established procedures for approval and purchase of SUVs. As discussed on page 16, SUVs are more expensive to operate on a cost per mile basis. The University of Missouri-Columbia had 40 active SUVs at the end of fiscal year 2004. According to a university system official, departments independently decide what to purchase according to needs and SUVs purchased have been justified. However, in discussing this matter with us, the official agreed to update the University of Missouri's system policy and address procedures on the purchase of SUVs.

Missouri State University officials told us SUVs are approved by university department heads, and by the procurement department, and would not have been approved without justification. In discussing this issue with us, the officials said they will consider adding criteria for the purchase of SUVs to the university's vehicle policy. As of June 30, 2004, the university had five SUVs.

Northwest officials indicated they will consider adding criteria for the future purchases of SUVs to the vehicle policy. As of June 30, 2004, Northwest had two SUVs.

Additional Fleet Policies Could Improve Fleet Operations

Universities have chosen to establish fleet management policies independent of OA. Policies established by the University of Missouri, Missouri State University, and Northwest have not always addressed (1) minimum mileage use requirements, (2) vehicle replacement criteria, (3) requirements for mileage logs, (4) justification for assigning vehicles to individuals, and (5) justification for commuting.

OA established fleet management policies for state agencies consistent with SAO's 2001 report recommendations. OA established a statewide fleet management policy which, among other things, included

- minimum mileage use requirements,
- vehicle replacement policies,
- justification for assigning vehicle to individuals, and
- justification for commuting.

Universities could benefit with additional policies

University of Missouri fleet vehicle policies addressed procurement, sale or disposal of vehicles, use of university vehicles, methods of transportation and allowances, car rental services, safety, maintenance and accidents. However, policies and procedures did not address (1) minimum mileage use requirements (2) vehicle replacement criteria, (3) vehicle usage logs, (4) justification for assigning vehicles to individuals, and (5) justification for commuting.

In discussing these issues with us, a University of Missouri official acknowledged the system's vehicle policy has been inadequate and in response to our review, the university established a committee in June 2005 to review existing policies and develop university vehicle policies. The official told us vehicles are replaced at 100,000 miles because after that they pose a safety risk and employees would be reluctant to drive them. However, this is not documented in policy. The official estimated the university would have a revised policy in place by March 2006.

Missouri State University

In response to our 2001 report on fleet management, Missouri State University implemented vehicle fleet management policies and procedures. For example, university policy generally addresses driver responsibilities, maintenance, record keeping, replacement and redistribution, safety, rental and vehicle usage. However, we found the university's policy did not address (1) minimum mileage use requirements, (2) specific vehicle replacement criteria, (3) justification for assigning vehicles to individuals, and (4) justification for commuting.

In discussing these issues with us, university officials agreed these elements could help improve the university's overall vehicle fleet policy and would be added to policy.

Northwest

Northwest's vehicle policy addressed several key elements recommended in our 2001 review of state fleet operations. For example, the university's policy addresses maintenance, vehicle replacement thresholds, allowable and unallowable usage, and procurement of vehicles. However, it did not include (1) minimum mileage use requirements, (2) justification for assigning vehicles to individuals, (3) justification for commuting, and (4) vehicle usage logs.

In discussing these issues with us, university officials agreed these elements could strengthen the existing policy and will be taken into consideration prior to the next policy update.

Universities May Be Underutilizing Pool Vehicles

Fiscal year 2004 fleet utilization data disclosed most universities had not met OA's 15,000 mile usage criteria established for state agencies. For example, our analysis of 11²⁸ four-year institutions disclosed these institutions averaged 10,575 miles for that time period. Only one of the 11 schools, Truman State University, averaged over 15,000 miles. When compared to OA's minimum pool vehicle mileage requirement of 15,000 miles per year for state agencies, the 11 institutions averaged 4,425 miles below that requirement.

As discussed earlier, University of Missouri, Missouri State University, and Northwest have not addressed minimum vehicle usage requirement or tracking fleet utilization. Our analysis showed the University of Missouri-Columbia's pool vehicles averaged 13,940 miles, Missouri State University averaged 14,483, and Northwest averaged 12,612 miles in fiscal year 2004.

Conclusions

Opportunities exist for the University of Missouri, Missouri State University, and Northwest to reduce mileage reimbursement and fleet costs, as well as improve fleet operations. Only Northwest has tracked mileage reimbursements and none have monitored mileage reimbursements. Sound business practices dictate tracking and monitoring mileage reimbursements in order to determine whether this expense is reasonable, and methods to possibly reduce it. In addition, none of the universities reviewed had established policies requiring employees to use the least costly mode of transportation. Sound business practices dictate universities establish guidance requiring employees use the least costly mode of transportation whenever possible.

²⁸ We received data from all 14 institutions. However, information received from Lincoln University, University of Missouri-St. Louis, and Southeast Missouri State University could not be analyzed due to insufficient data.

Two of the three entities reviewed considered purchasing surplus vehicles; however, none addressed consideration of surplus vehicles in fleet policies. University guidance should address consideration of surplus vehicles. Purchasing surplus vehicles, when practical, should help reduce fleet procurement costs. In addition, university fleet policies should address justification for procuring more costly SUVs.

Universities could also benefit by establishing policies addressing minimum fleet mileage use requirement and tracking of pool vehicle utilization, vehicle replacement criteria, vehicle usage logs, vehicle assignment criteria, and justification for commuting. Establishing policies in these areas would assist universities in ensuring state vehicles are fully utilized, replaced at appropriate times, used in accordance with university guidance, and properly assigned to individuals and/or departments.

Recommendations

We recommend university officials:

4.1 Establish fleet vehicle policies which require

- mileage reimbursements to be tracked and monitored,
- employees to use the least costly mode of transportation,
- consideration of purchasing surplus vehicles versus new vehicles, and
- justification when SUVs are purchased.

4.2 Establish fleet vehicle policies addressing

- minimum fleet vehicle mileage requirements,
- vehicle replacement policies,
- use of vehicle logs,
- vehicle assignment criteria, and
- justification for commuting.

Agency Comments

Missouri State University Comments

Missouri State University has read the findings of the Missouri State Auditors Office on "Fleet Management" and will change our policies consistent with your recommendations in your report and consistent with State Vehicle Policy SP-4. These changes will take place on or before January 1, 2006 which will enable us to revise our policies and make software changes.

Northwest Missouri State University Comments

4.1 Northwest Missouri State University will use its accounting system to track and monitor mileage reimbursement and share that information with each University department annually at the end of each fiscal year.

Through communication to departments and periodic reminders, Northwest will encourage departments to take advantage of lower costs achieved by using our fleet vehicles, recognizing that some circumstances will make it difficult to achieve this goal.

Northwest will purchase vehicles from State and Federal Surplus for its maintenance and service vehicles.

Northwest will require justification on the rare occasion when a request to purchase a SUV is made.

4.2 Northwest agrees to gradually increase fleet vehicle mileage over 3 to 4 years with the goal of achieving 15,000 miles yearly and will change our fleet vehicle policies accordingly.

Northwest will evaluate over the next 3 to 5 years the vehicles purchased from State and Federal Surplus based on comfort, safety and fuel standards. We will increase the number of surplus purchases made for the fleet if performance is deemed to meet or exceed high standards set for our vehicle fleet.

Every vehicle on the Northwest campus now contains a log book for recording trip and/or weekly mileage.

Department service and maintenance vehicle assignments at Northwest are based on job task and/or special purpose use. We will evaluate department vehicle assignments and fleet utilization annually and include this language in our vehicle policies accordingly.

Commuting does not occur at Northwest so justification does not apply.

University of Missouri officials chose not to provide written comments, but provided oral comments on September 6, 2005 and their comments have been incorporated as appropriate.

Mileage Reimbursements by Agency

Table I.1 depicts mileage reimbursements totaling approximately \$72 million for fiscal years 2001 through 2005.²⁹

Table I.1: Mileage Reimbursements by Agency – Fiscal Years 2001 Through 2005

Agency	2001	2002	2003	2004	2005	Totals
Social Services ¹	\$5,500,989	\$5,419,761	\$5,049,787	\$4,826,058	\$5,485,966	\$26,282,561
Corrections ¹	1,391,380	1,587,950	1,545,244	1,411,516	1,473,297	7,409,387
Health and Senior Services ¹	1,042,851	1,033,486	1,609,215	1,576,328	1,524,702	6,786,582
Economic Development	740,678	720,590	719,644	836,812	911,692	3,929,416
Public Defender	633,613	757,915	800,270	718,699	817,689	3,728,186
Mental Health ¹	914,880	823,298	647,113	435,900	541,493	3,362,684
Elementary and Secondary Education ¹	742,318	755,536	673,506	522,834	578,836	3,273,030
General Assembly	505,086	649,933	658,845	621,584	626,190	3,061,638
Judiciary	596,785	674,536	687,019	508,251	561,505	3,028,096
Public Safety ¹	550,276	575,690	596,666	499,301	563,823	2,785,756
Revenue ¹	497,231	426,021	372,507	391,089	376,092	2,062,940
Labor and Industrial Relations ¹	390,564	431,485	324,889	267,089	263,434	1,677,461
Conservation	124,743	161,346	152,920	186,140	201,295	826,444
Attorney General ¹	126,047	155,129	152,404	157,582	175,281	766,443
State Auditor	140,789	145,138	144,754	158,476	140,941	730,098
MoDOT	82,634	122,117	135,869	159,065	167,123	666,808
Insurance	80,655	95,931	114,878	77,345	122,066	490,875
Office of Administration ¹	98,802	83,169	77,106	98,408	112,684	470,169
Natural Resources ¹	87,149	92,900	87,790	83,937	78,007	429,783
Secretary of State	50,020	58,082	60,946	53,778	54,898	277,724
Agriculture	32,756	36,161	43,380	51,880	48,001	212,178
Lt. Governor	4,529	5,477	6,682	6,799	6,420	29,907
Higher Education	6,189	5,631	2,518	4,814	3,173	22,325
State Treasurer	4,391	6,521	6,775	3,158	1,026	21,871
Governor	3,868	4,111	3,688	4,143	2,371	18,181
Totals	\$14,349,223	\$14,827,914	\$14,674,415	\$13,660,986	\$14,838,005	\$72,350,543

¹ These 11 agencies met OA's 15,000 mile utilization requirement for vehicles, but accounted for \$55 million in mileage reimbursements.

Source: SAO analysis of state financial system data for fiscal years 2001 through 2005.

²⁹ Total includes reimbursements for in-state travel and for state employees only.

Additional Agency Comments to Chapter 2

MATT BLUNT
Governor
LARRY CRAWFORD
Director



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State of Missouri
DEPARTMENT OF CORRECTIONS
Ad Excelleum Conamur - "We Strive Towards Excellence"

October 19, 2005

The Honorable Claire C. McCaskill
Missouri State Auditor Office
P. O. Box 869
Jefferson City, MO 65102

RE: Fleet Management Follow-up

Dear Ms. McCaskill:

The Department of Corrections has the following comments on the draft report titled "Fleet Management Follow-up".

Pages 8 and 9 of the draft report discuss mileage reimbursement costs and use of the state trip optimizer to help mitigate mileage reimbursement. The Department of Corrections has tracked and analyzed mileage reimbursement data. Mileage reimbursement for the department is highest in "outstate" locations, mainly Probation and Parole offices where no pool vehicles are available. In recent years, the DOC fleet has been reduced due to mileage, age and unreliable condition of vehicles. Vehicle reassignment has occurred to the extent possible with our existing fleet. We continually track vehicle usage and reassign underutilized vehicles according to greatest need within the department. Mileage reimbursement is a factor in the reassignment of vehicles.

The OA Trip Optimizer has been reviewed and the Divisions have been encouraged to evaluate the feasibility of the recommended mode of travel. In many cases leasing vehicles is not cost effective due to the distance from our remote offices to the location of a leasing office. Currently the Trip Optimizer does not take into account the cost factor of traveling to and from the leasing location. It is recommended that a "locator" or some cost calculator be included in the Trip Optimizer to take into account the distance to a vehicle rental site.

Page 11 of the draft report discusses that there are no adverse consequences for not using low cost transportation. The DOC Travel Policy and Procedure does not allow travel reimbursement for an employee if a department pool vehicle is available at the work site.

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Appendix II

Additional Agency Comments to Chapter 2

Claire McCaskill – Fleet Management Follow-Up
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Page 2

Page 13 discusses increasing the minimum mileage replacement criteria to 135,000 miles. While it is agreed that this may reduce fleet costs initially by not allowing replacement vehicles below 135,000 miles, the DOC has reservations about not being able to replace inmate transportation vehicles until they have accrued 135,000 miles. There is a public safety concern in using high mileage, less reliable vehicles to transport inmates both in-state and out of state. While the overall maintenance costs may not increase significantly between 105,000 and 135,000 mile vehicles, our concern is that the higher mileage vehicles are more likely to 'break-down' while on the road while transporting inmates. The DOC requests that consideration be given to exempting special purpose inmate transport vehicles from the 135,000 mile minimum replacement criteria.

In addition, increasing the minimum mileage requirement to 135,000 miles will save the state in the first and second years. However, it is logical to assume that vehicle replacement cost will increase in the third and possibly fourth years because of the increased numbers of vehicles needing replacement. If in the third and fourth years there is little or no funding to replace vehicles, the department will have a much less reliable fleet and maintenance costs for the aged fleet will be significantly higher.

I certainly appreciate the opportunity to comment on the Fleet Management Follow-up draft report.

Sincerely,



Larry Crawford
Director

Cc: Robert D. Spence, Audit Manager
Dave Rost, Deputy Director
Jim Grothoff, General Services
Lenard D. Lenger, Comptroller
File

Appendix II Additional Agency Comments to Chapter 2



Missouri Department of Health and Senior Services

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RELAY MISSOURI for Hearing and Speech Impaired 1-800-735-2966 VOICE 1-800-735-2466

Julia M. Eckstein
Director



Matt Blunt
Governor

October 24, 2005

The Honorable Claire McCaskill
Auditor of the State of Missouri
State Capitol Building, Room 224
Jefferson City, Missouri 65101

Dear Auditor McCaskill:

We have reviewed and prepared the following Department of Health and Senior Services' response to the Statewide Fleet Management Follow-Up Audit.

Response to Annual Mileage Reimbursement Expenses for FY 2001 through FY 2005:

DHSS management realize our mileage reimbursement expenses are costly; however, understand these operational expenses are necessary to enable staff to accomplish a multitude of job functions, most of which are required by state and/or federal laws and/or regulations. Some of the common job functions requiring travel include: inspecting nursing homes, responding to senior and adult abuse and neglect hotline calls, conducting in-home visits, investigating communicable diseases, and installing computers at county offices, etc.

Approximately 35% of DHSS's workforce (730 employees) has positions that require routine travel. DHSS currently has 97 fleet vehicles. Therefore, the department's fleet alone is not sufficient to meet the travel needs of our staff. The department's travel and vehicle policies instruct staff to employ the most cost effective means of transportation via the use of OA's trip optimizer. When a department's vehicle is unavailable to staff to perform their job functions, staff are instructed to employ alternative transportation options such as using OA fleet vehicles (option available for staff located in Jefferson City) and renting vehicles. Only as a last resort are staff to use their own personal vehicle for performing their job functions.

DHSS has provided the audit team with examples of management reports related to fleet data and mileage reimbursement analyses that are routinely shared with DHSS management/supervisors to assist them in ensuring their staff are using the most cost-effective means of transportation. DHSS prides itself in being data driven in our management decisions and will continue to exercise fiscal prudence in the expenditure of the department's limited resources.

www.dhss.mo.gov

The Missouri Department of Health and Senior Services protects and promotes quality of life and health for all Missourians by developing and implementing programs and systems that provide: information and education, effective regulation and oversight, quality services, and surveillance of diseases and conditions.

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Page 2

Appendix 1 provides total mileage reimbursement information for state agencies. It should be noted this chart does not reflect the funding source information for these reimbursements. For instance, the funding source percentages of the mileage reimbursement expenditures for DHSS, over the five-year period reviewed, averaged 63% being funded by federal grant or other non-general revenue funding sources and only 37% was funded by the state's general revenue.

Table 2.1: Top Employee Reimbursements Made Over Five Years:

The position identified in Table 2.1 for the Department of Health and Senior Services was an employee of the Office of Information Systems and is now an employee of OA, Information Technology Services Division (ITSD). The position requires the employee to travel extensively throughout the state to the various county offices performing critical ITSD functions. ITSD management have considered purchasing and assigning a vehicle to the staff member to reduce mileage reimbursement expenses; however, due to the state's budgetary constraints, ITSD has been unable to purchase and assign a vehicle to the employee.

Options Could Better Meet Needs of Agencies:

DHSS officials acknowledged to the audit team that having staff be reimbursed for the use of their personal vehicles is costly and agreed acquiring additional state vehicles could help reduce mileage reimbursement costs.

DHSS has submitted a request to the OA fleet manager requesting 13 of the department's vehicles be replaced and to date have received authorization to replace three of the 13 vehicles as they were inoperable. DHSS has also submitted a request and a cost price analysis for purchasing additional vehicles to expand the fleet and reduce mileage reimbursement expenses. DHSS is awaiting OA's decision concerning the 10 replacement vehicles and the request to expand our fleet. DHSS management is supportive of assigning vehicles to "high-end" users to reduce mileage reimbursement expenditures. This option will be employed if the department is authorized to purchase additional fleet vehicles.

OA Policy Has Not Required Agencies To Consider Surplus Vehicles:

DHSS routinely uses federal surplus vehicles to replace and expand its fleet. Low mileage surplus vehicles have been a prudent investment to enable DHSS to replace and expand its fleet. With the merger of the Division of Aging and Department of Health into the newly formed Department of Health and Senior Services in Fiscal Year 2003, the department's fleet expanded from an estimated 25 vehicles to 100 vehicles. The majority of the vehicles transferred from DSS to DHSS had very high mileage and associated maintenance expenses. In Fiscal Year 2004, after DHSS had one year's worth of cost data information related to these vehicles and mileage reimbursement data for staff, management of Division of Administration and Division of Senior Services and Regulation collaboratively made a recommendation to purchase 43 federal surplus vehicles for DHSS. Thirty-four of the 43 vehicles were to replace existing fleet vehicles that had been identified as having the highest mileage and/or maintenance/repair cost and the remaining nine of the 43 vehicles were to expand the department's fleet to assist in meeting the travel needs of staff and thereby reduce the department's mileage reimbursement

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Oct. 24, 2005
Page 3

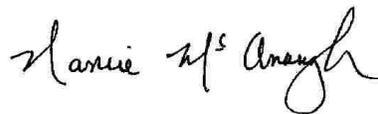
expenses. These recommendations and the applicable cost price analysis/justification information were submitted to and approved by OA fleet management. These one-time expenditures were paid from within DHSS's core budget and predominately paid by federal funds. DHSS plans to continue to replace and if authorized expand its fleet via the purchase of federal surplus vehicles.

Conclusions:

In summary, DHSS management realize our mileage reimbursement expenses are costly; however, understand these operational expenses are necessary to enable staff to accomplish a multitude of job functions, most of which are required by state and/or federal laws and/or regulations. The department's policies instruct staff to use OA's trip optimizer to ensure the most cost-effective means of transportation is employed. Management staff will continue to be provided reports/data concerning the deployment of the agencies' fleet and mileage reimbursement information to assist them in ensuring their staff are using the most cost-effective means of transportation. DHSS management is supportive of assigning vehicles to "high-end" users to reduce mileage reimbursement expenditures and will employ this cost containment strategy if the department is authorized to purchase additional vehicles. In addition, DHSS plans to continue to replace and, if authorized, expand its fleet via the purchase of federal surplus vehicles. DHSS prides itself in being data driven in our management decisions and will continue to exercise fiscal prudence in the expenditure of the department's limited resources.

Please contact Rebecca Mankin at 573-526-0722, if you require additional information regarding the information covered in this letter. Thank you.

Sincerely,



Nancie McAnagh
Deputy Department Director

NM:RM:sd

cc: Rebecca Mankin

Appendix II
Additional Agency Comments to Chapter 2

MATT BLUNT
GOVERNOR
DORN SCHUFFMAN
DIRECTOR



STATE OF MISSOURI
DEPARTMENT OF MENTAL HEALTH

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October 24, 2005

Robert D. Spence
Audit Manager
State Auditor's Office
Truman State Office Building
Room 880
Jefferson City, Mo 65101

Dear Mr. Spence:

This letter represents the Department of Mental Health's response to your draft report titled, "Fleet Management Follow Up." Specifically, the Department of Mental Health is responding to the comment on page 10 and the information reported in Table 2.1 of the draft report.

The Department of Mental Health employee included in Table 2.1 held the position of Director of the Office of Public Affairs until August 1, 2005. This employee traveled extensively to educate Missourians about mental illness, developmental disabilities and substance abuse. The department developed partnerships with local radio and television stations to air shows about mental illnesses, developmental disabilities and substance abuse. Developing and maintaining these local partnerships required this employee to travel regularly as part of her responsibility for maintaining this educational initiative.

Local stations in St. Louis, Kansas City, St. Joseph, Festus, Clinton, Springfield, and Cape Girardeau air these shows at no cost to the department. These programs have generated hundreds of thousands of dollars of free air time in the past five years and help the department meet its responsibility to educate people about mental health issues.

This employee often took a fleet vehicle. However, because of a chronic health problem which required special supports, accommodations were made to allow the employee to take a personal vehicle so that modifications did not have to be made to

The Department of Mental Health does not deny employment or services because of race, sex, creed, marital status, religion, national origin, disability or age of applicants or employees.

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fleet vehicles. Modifications would have resulted in additional costs to the department.

Thank you for the opportunity to respond to the draft report. If you have any questions, please contact me at 573/751-8067.

Sincerely,



Janet Gordon
Director, Office of Audit Services

Appendix II Additional Agency Comments to Chapter 2



**MISSOURI
DEPARTMENT OF SOCIAL SERVICES**

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K. Gary Sherman
DIRECTOR

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October 24, 2005

Robert D. Spence
Missouri State Auditor's Office
224 State Capitol Building
Jefferson City, MO 65101

Dear Mr. Spence:

Thank you for the opportunity to review and comment on information contained in your audit of the Statewide Fleet Management system. We do not dispute or challenge any of the data presented in the report. We would, however, like to take this opportunity to comment on the "Recommendations".

- 2.1 Require state agencies to analyze mileage reimbursements to determine alternatives to reduce mileage reimbursements.

We realize that DSS is high in this area, and in our opinion, we continue to use the most cost effective and efficient means of transportation available for our staff to perform their job functions. We have over 3,000 workers, operating from some 220 domiciles throughout the state, covering 114 counties and the City of St. Louis, all whose jobs require extensive travel to do the state's mandated work. Over 2,000 of these individuals exceed 2,000 reimbursable miles each year. Of these, 95 exceed 14,000 miles per year. We welcome the opportunity to engage in conversations as to how we can relieve this burden on our staff.

DSS currently has approximately 339 vehicles; 248 of which are used solely for the delivery of the Division of Youth Services' programs. Another 40 are for "material handling" activities. This leaves approximately 50 vehicles to be used by the above referenced 3,000 staff.

- 2.2 Require state agencies to use the trip optimizer ...

Again, we feel that DSS offices make every attempt to use the most cost effective means of transportation available to perform their tasks. Supervisors and staff are aware of the availability of the "trip optimizer", but do not necessarily use it for every trip. Most offices do not have state-owned vehicles available to them. Rental vehicles are primarily available in the metro areas, and oftentimes are not available outside of normal work hours.

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- 2.6 Establish a policy requiring agencies to formally consider purchasing surplus vehicles when replacing fleet vehicles.

DSS encourages the purchase of surplus/used vehicles whenever possible.

Again, thank you for the opportunity to offer our input. If you need additional information, please let me know.

Sincerely,



K. Gary Sherman
Director

KGS:lk

cc: Steve Renne
Al Gage
Brian Kinkade
Alice Hernandez